GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1022
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Foreign Banks in Rural Areas
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has given permission to foreign banks to open their branches in unbanked/rural areas in the country;

(b) if so, the details thereof;

(c) whether the Government has determined any policy to keep a check on these banks; and

(d) if so, the details thereof along with the other steps taken/being taken by the Government in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE

(a) & (b): Reserve Bank of India (RBI), while considering applications for opening branches by foreign banks in India gives weightage to the nature and scope of banking facilities provided by foreign banks to common persons, particularly in under banked areas, actual credit flow to the priority sector, pricing of products and overall efforts for promoting financial inclusion, including introduction of appropriate new products and the enhanced use of technology for delivery of banking services.

As on November 30, 2015, 46 foreign banks are operating in India with 325 branches out of which 38 branches are in under banked areas.

Reserve bank of India has issued a framework for setting up of Wholly Owned Subsidiaries (WOS) by foreign banks in India on November 6, 2013 in terms of which WOS would be permitted to open branches in Tier 1 to 6 centres (except at certain sensitive locations) without having the need to take prior permission from Reserve Bank of India in each case subject to reporting, as under:

i) At least 25 percent of the total number of branches opened during the financial year must be opened in unbanked rural (Tier 5 and Tier 6) centres, i.e. centres which do not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

ii) The total number of branches opened in Tier 1 centres during the financial year cannot exceed the total number of branches opened in Tier 2 to 6 centres and all centres in the North Eastern States and Sikkim.

iii) An incentive in the form of a branch in a Tier 1 centre would be given for opening of a branch in Tier 2 to Tier 6 centres of under banked districts of under banked States.

iv) In case the WOS is unable to open all the branches it is eligible for in Tier 1 centres, it may carry-over (open) these branches during subsequent two years.

v) If for some reason a WOS is unable to meet obligations of opening branches in Tier 2 to 6 centres in aggregate, or in unbanked rural centres (Tiers 5 to 6 centres) during the financial year, it must necessarily rectify the shortfall in the next financial year.

vi) This general permission would be subject to compliance with the parameters stated above as well as regulatory/supervisory comfort in respect of the individual WOS. RBI would have the option to withhold the general permission to banks which fail to meet the above mentioned criteria along with imposing penal measures on banks which fail to meet the inclusion obligations above.

No WOS has been set up so far.

(c) & (d): Foreign banks are regulated largely on par with domestic banks under the provisions of Banking Regulation Act, 1949 and other regulations issued by RBI.

As per India's WTO commitment, license for new foreign banks may be denied when the maximum share of assets in India both on and off balance sheet of foreign banks' branches to total assets of the banking system exceeds 15%. Further, the scheme for setting up of WOS by foreign banks provides that restrictions would be placed on further entry of new WOSs of foreign banks, when the capital and reserves of the foreign banks (that is, WOSs and foreign bank branches) in India exceed 20% of the capital and reserves of the banking system. In such eventuality prior approval of RBI will be required for capital infusion into the existing WOSs of foreign banks. Also, in terms of the scheme for setting up of WOS by foreign banks, a foreign bank which has set up its presence in India

through branch mode after August 2010, will be considered by RBI as being systemically important by virtue of the size of its business, that is, if its assets in Indian books (on balance sheet and credit equivalent of off-balance sheet items) become 0.25% of the total assets (inclusive of credit equivalent of off-balance sheet items) of all scheduled commercial banks and would be required to convert into a WOS.

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